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charateristics and trends

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ENTREPRENEURSHIP IN THE PERIPHERY: Characteristics and Trends

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ABSTRACT

The aim of this paper is to theoretically contextualize entrepreneurship development in the periphery, examine the characteristics of peripheral entrepreneurship and inform the reader of the nature entrepreneurship development trends in the last decade. Since entrepreneurship in the periphery has special challenges, the differences between core and peripheral regions are explored focusing on the spatial aspect. Two theoretical models were chosen, the Schumpeter model and The Austrian School of Economics, to shed light on the different angles entrepreneurship development can take place in the periphery. The former focuses on the individual as economic actor and the latter focuses on the institutional role aiding entrepreneurial action. Each theory stresses entrepreneurship as an imperative for economic growth and each offers different yet valuable perspectives for action. A discussion on entrepreneurship development trends concludes this paper.

Keywords

Entrepreneurship, Periphery, Economic Development, Regional Development

INTRODUCTION

Entrepreneurship is often approached as the catalyst and caretaker of national and regional economies. It is seen as the “snake juice” for almost any economic ailment and considered to be the privileged road to enhance the creation of new jobs and increase GDP. For instance, the OECD (1998) states:

“As more countries move towards fostering entrepreneurship, the evidence is mounting that implemented comprehensively, entrepreneurship policies represent an effective response for countries wanting to strengthen their adaptability and improve their economy’s ability to create jobs.”

Research has proven that enduring assets created through entrepreneurial activity are: increased productivity and competitiveness (Solow 1994, Gregersen and Johnson 1997), the prevention of rent seeking, monopoly exploitation and economic stagnation (Olson 1996). Entrepreneurs are known to drive efficiency and raise productivity (Balthelt 2001). New network creation and cooperation provides a more fluid information exchange, introduces important innovations by entering markets with new products or production processes. (Acs & Audretsch 1990 & 2003). For regions that cannot attract outside investment, entrepreneurship is the only economic development strategy at their disposal (Venkataraman 2004).

All the above statements are integral factors for the development of an economy. For this reason it is important to consider the impact entrepreneurship could have on depleted regions. A characteristic of entrepreneurial action has to do with creating and extracting value from an environment (Anderson 2000) which most people see as having no worthwhile economic value. If entrepreneurship is truly the only economic development strategy for regions that cannot attract outside investment (Venkataraman 2004) then it is hard to imagine a peripheral development program without entrepreneurship in its equation.

For entrepreneurship to flourish in any region, a series of preconditions are needed to create a sound economic basis. Research has shown the best thing a government can do is to eradicate barriers for the creation and operation of new businesses. These actions include: the removal of barriers to competition, to review the provision of services with respect to efficiency and effectiveness, promote fiscal responsibility, and ensure transparency of the law and a clear legal framework for property rights and regulatory oversights (GEM 2005). Above all, peace and stability are necessary conditions for the development of an entrepreneurial society. For the discussion in this paper, it is assumed that these conditions exist.

This paper begins by acknowledging the special challenges of entrepreneurship in the periphery by comparing the periphery to the core from a spatial perspective discussing the impact of geographical, social and cognitive distance. Then a closer examination is made of entrepreneurship in the periphery from the standpoint of positive and negative characteristics, completing the discussion with entrepreneurship development trends. The interventions for development take place on two levels: the individual or institutional. An explanation for this

ensues in the following section proving that the entrepreneurship theories of Joseph Schumpeter and the Austrian School of Economics have dominated the theoretical discourse on the subject (Boettke & Coyne 2003, Ardichvili, et. al. 2000, Shane & Venkataraman 2000, Foss 1990) spilling over to development interventions.

Joseph Schumpeter's Mark I regime states that the entrepreneur has the special role of "creative destruction" which Schumpeter associates with creating different combinations of resources and therefore economic development and progress (Schumpeter 1934). This implies that interventions in the periphery should focus on the individual by increasing their awareness of resources at hand and aiding in the recognition of business opportunities.

The second theory from the Austrian School of Economics states that entrepreneurship does not describe a distinct group of individuals but rather is an ever present aspect of human action (Kirzner 1979). To aid this "human action" Kirzner states that the environment needs to be primed through the role of robust and relevant institutions. Institutions or "the rules of the game" provide a framework which guides activity, removes uncertainty and makes the actions of others predictable. In short, institutions serve to reduce the costs of action and facilitate the coordination of knowledge dispersed through society (Boettke and Coyne 2003). The presence and quality of institutions in the periphery are often either non-existent or of low quality. According to the Austrian School, interventions on an institutional/societal level would increase entrepreneurial activity.

The Schumpeterian and Austrian School theories have different starting points (individual or institutional) and different explanations for entrepreneurship's effect on the economy (disequilibrium or equilibrium) however both are correct taken from their point of observation. This simply underlies the complexity of the phenomenon of entrepreneurship and why theoretical discussions have become more multi-layered (Shane & Venkataraman 2000, Ardichvili, et. al. 2000) and why the most successful entrepreneurship development programs were multi-disciplinary in nature.

THE CORE VS. THE PERIPHERY

In discussions comparing entrepreneurship in the core and the periphery, often the differences are highlighted. That will be done in the next paragraph but it is worthwhile to remember that there are some actions that core and periphery entrepreneurs share. They are similar in that both create: innovative responses to depleted environments (Schumpeter 1934, Drucker 1985), and new organizational structures which mobilized previously idle or under utilized resources. Both groups create wealth (Say 1971) that entails vision (Filion 1990, Balderson 1998). Goals are pursued with tenacity and resourcefulness and their successes attest to the soundness of their business ideas (Nicholls-Nixon 2001). These actions can hold the power to

economic change in the periphery and underline the importance of entrepreneurial behavior in depleted environments.

Entrepreneurship as a process is far more widespread than current approaches to research might suggest. Steyaert and Katz (2004) reason that current entrepreneurship measures are too coarse grained; looking only at business creation or limiting itself to high growth business creation. Missing are the fine grained forms of entrepreneurial interaction taking place in any society (Steyaert and Katz 2004). The approach to entrepreneurship in the periphery, out of necessity, needs a fine grained form of entrepreneurial interaction. (Steyaert and Katz 2004). A realistic viewpoint is also necessary because the periphery has many limitations that keep it from mirroring the core. These limitations do not mean that entrepreneurship is impossible but simply that a different kind of entrepreneurship is called for - one which can still help avoid the distressing effects of economic and social stagnation. To understand why a different kind of entrepreneurship is needed, we need to first reflect on the differences between the core and the periphery from a spatial aspect.

The Spatial Aspect of the Periphery

The geographical distribution of society in space creates an unevenness of power. If scholars attempt to define the periphery, it is in relation to the core. Giddens (1995) characterized the core as "the shortness of space-time distanciation". If the periphery is the core's conceptual opposite, then it is characterized by the concept of distance. Being far away from something often has negative, value-laden connotations. For example, Anderson (2000) states that the periphery exists in a condition of retarded development because it cannot rid itself of the vicious cycle created in space over time driven by distance. It is also characterized by marginal activities driving low value primary production (Anderson 2000).

If these descriptions are based on spatial and social notions of distance, it is worthwhile to ask what is the periphery far away from? According to Goodall (1987) the periphery is far away from a communication system or the controlling center of the economy. This controlling center or core controls and shapes resources, and the decisions made about the distribution of these resources are concentrated there (Anderson 2000). The strength of the core lies in the issue of proximity. The dimensions of proximity are described by Lorentzen (2006) as geographic, societal, and cognitive. Since this paper is about the periphery, the following discussion will use the dimensions above and frame them from the point of view of distance and its effects on entrepreneurship.

Geographic Distance

Geographic distance is self explanatory but in the context of entrepreneurship it has great repercussions. It increases costs, time of travel, and limits personal interactions thereby limiting information and knowledge flow. Technologies are becoming increasingly available to compress time and space however, investment in infrastructures to support these technologies is needed.

Often due to low levels of demand and the inability to sustain costs of renewal, the periphery is the last place where such investments are made.

Societal Distance

Societal proximity considers institutions, organizations, and networks of actors involved in an economy (Lorentzen 2006). In the instance of entrepreneurship in the periphery, well connected institutions, organizations and networks of individuals are usually few or non-existent. Institutions often provide a framework for action and a source of information and training. Social networks provide the exchange of information or knowledge. Entrepreneurs in small localities often do not have contacts extending beyond the community. The weak ties offered by extra community networking imports new knowledge as well as human resources. (Granovetter 1973, Chell and Baines 2000). By not having extensive networks, the important intangible resource of having informal forums (Venkataraman 2004) in which to exchange knowledge and information is missing.

Cognitive Distance

“Cognitive proximity covers the cultural and technological shared mindsets that enable actors to understand each other” (Lorentzen 2006). What does shared cultural and technological understanding mean for entrepreneurship in the periphery? The old adage, “Birds of a feather flock together” comes to mind. The aspiring entrepreneur in the periphery is distant from like-minded people. This distance impedes the entrepreneur’s ability to discover opportunities which is an integral aspect of entrepreneurship. Opportunity recognition is rarely an instantaneous act, instead it is a process of complex interdependencies. It depends upon the entrepreneur’s alertness (Kirzner 1973) which has a direct relationship to his education, his prior knowledge, his willingness to take risks, and his social network which is a source of information and knowledge exchange. The periphery, once again, has challenges in all of these aspects. Institutions of higher learning are generally situated in core regions. Access to and training for technological tools are absent from peripheries due to the nature of low demand, and simply from the point of sheer numbers, there are not enough entrepreneurs in a peripheral region to create a critical mass of learning and knowledge sharing. With resource difficulties such as these, entrepreneurship development in the periphery seems a hopeless case. However, research has proven that by focusing on two critical factors implied from two theories of entrepreneurship the problems of development can be solved or minimized. First, the theoretical position will be examined for its clues for intervention, then the interventions themselves will be discussed.

CLUES FOR ENTREPRENEURSHIP DEVELOPMENT - TWO ECONOMIC THEORIES

Joseph Schumpeter’s Mark I Regime

For Joseph Schumpeter (1934), the role of the entrepreneur as prime cause of economic development was emphasized. He rejected the widely accepted view of the market as a perfectly competitive construct. Schumpeter described how the innovative entrepreneur challenges

established firms by introducing new inventions that make current technologies and products obsolete. This process of “creative destruction” is the main characteristic of what has been called the Schumpeter Mark I regime. He linked the market process of creative destruction – which he associated with new resource combinations and, therefore, economic development and progress - to innovation and distinguished the entrepreneur as the prime innovator. In addition to being an innovator, the entrepreneur is a leader (Schumpeter 1934). His actions channel the means of production into previously unexploited markets and other producers follow him into these new markets (Schumpeter 1934).

One overlooked aspect to Schumpeter’s model is that it does not take into account the environment in which the entrepreneur or the firm operate in. The environment crucial for their success is the institutional landscape whose impact on entrepreneurship is outlined in the next section in the ideas of the Austrian School of Economics of which von Mises (1949) and Kirzner (1973 & 1979) were instrumental in developing.

The Austrian School Model

Hayek, von Mises and Kirzner, economists associated with the Austrian School of Economics have long focused their attention on the study of entrepreneurship and the economic analysis of institutions. This theoretical position has provided a robust literature (Boettke 1994, Foss 1997, Wubben 1997). In contrast to other schools of economic thought, the Austrians have not only realized the importance of institutions, but have attempted to provide a connection between the market process and an economic understanding of institutions. Moreover, they stress that “entrepreneurship does not describe a distinct group of individuals but rather an omnipresent aspect of human action” (Kirzner 1973). This human action is characterized by a subconscious alertness to economic opportunity which can only arise if the institutional environment is robust.

The institutional environment (political, legal, and cultural) directly influences economic actors’ activity and hence economic development (Baumol 1990, Olson 1996). Institutions or the “rules of the game” provide a framework which guides activity, removes uncertainty and makes the actions of others predictable. In short, institutions serve to reduce the costs of action and facilitate the coordination of knowledge dispersed through society (Boettke and Coyne 2003). When entrepreneurship manifests itself across institutional regimes, some of these manifestations are consistent with economic development and others are not. When evaluating the institutional environment in peripheries, it helps to consider how they channel entrepreneurial activity in one direction or another. Olson (1996) suggested that there are huge opportunities for mutual gain that continue to go unrealized in the less developed areas of the world. He states that a major reason for this lack of opportunity exploitation is the lack of institutions or an institutional structure that encourages entrepreneurship. Simply put, economic growth driven by entrepreneurship cannot be explained without reference to institutions.

Certainly not all institutions support economic growth. Ones which stunt economic growth can be found at different levels of the government, police, and court. An example of how misguided policy was developed without considering the impact of institutions was seen when western economists offered policy advice without offering pertinent development advice after the fall of the iron curtain. The Austrian School of Economics reminds us that the individual entrepreneur, regardless of talent, and creative capacity, cannot move forward without a conducive environment supporting his economic goals.

Summary – Two Economic Models

While there are similarities between Schumpeter's and the Austrian School of Economics' (as explained by Kirzner) notion of entrepreneurship, there is a foundational juxtaposition between each author's understanding of the market process which leads to differing views of the role of the entrepreneur. As compared to Schumpeter's characterization of the market process as creative destruction, Kirzner emphasized that markets "tend continually...towards equilibrium as the consequence of continually stimulated entrepreneurial discoveries" (1999). The key concept in Kirzner's notion of entrepreneurship is the alertness to opportunities i.e. the discovery of knowledge previously unknown. While both Schumpeter's and Kirzner's notions of entrepreneurship are grounded in the exploitation of profit opportunities, the greatest difference is that the former shifts the market away from equilibrium while the latter serves to continually move the market toward equilibrium. While Schumpeter's entrepreneur is an innovator who destroys the current structure, Kirzner's entrepreneur is alert to arbitrage opportunities based on past errors and serves to exploit and correct those errors, and in doing so directs the market towards equilibrium. Kirzner recognized the role that the entrepreneur would play in economic development.

"In economic development, too, the entrepreneur is to be seen as responding to opportunities rather than creating them; as capturing profit opportunities rather than generating them...Without entrepreneurship, without alertness to the new possibility, the long term benefits may remain untapped" (1973)

For Kirzner, the competitive market and entrepreneurship are inseparable – the competitive process is in essence entrepreneurial (1973). The consideration of economic progress and the institutions that facilitate that development through entrepreneurship occurs here on two levels. First, given that competition and entrepreneurship are inseparable, we must evaluate if the institutional framework provides a structure for competition. Second, we must consider if the institutional framework provides the incentive structure for the entrepreneur to a) exercise his subconscious alertness and b) act on his alertness to exploit arbitrage opportunities. The aspects of having a "structure for competition" being able to "exercise alertness" and "acting on opportunities" are imperative environmental conditions if economic development is to occur in the periphery.

ENTREPRENEURSHIP IN THE PERIPHERY

Having delineated the hardships created by distance from the perspective of the peripheral entrepreneur, it is valuable to look at the value of entrepreneurship in the periphery. Research is divided in the way it looks at entrepreneurship in the periphery. Some scholars state that entrepreneurship plays a significant role in revitalizing peripheral regions and others state that entrepreneurship just another economic action that creates an even greater divide between the core and periphery. The position in this paper is to avoid either camp but to stress that entrepreneurship in the periphery is simply different.

Characteristics of Entrepreneurship in the Periphery

Negative Characteristics: A Place of Depletion

A closer look at worldwide data shows relatively few high growth entrepreneurs in rural communities (GEM 2005). Rural entrepreneurs tend to build smaller firms and generate lower incomes. It appears that the size and remoteness of small communities severely limits access to the resources they need to attract high growth companies. The gravitation effect works to strip out higher order functions from the periphery, in effect, reinforcing the strength of the core (Anderson 2000). Anderson (2000) states that what is leftover are “qualities such as tradition and underdevelopment, those very characteristics that made the region or community peripheral in the first place.” Thus peripheral firms tend to remain small and are often craft based, resource or tourist related. Furthermore, entrepreneurs working in depleted communities are more likely than their core counterparts to experience a number of obstacles to development including venture capital equity gaps (Johnstone and Lionais 2004), labor skills gaps (Massey 1995) and a lack of business and financial support institutions (Johnstone and Haddow 2003), as well as a lack of appropriate institutional thickness (Amin and Thrift 1994, Hudson 2000).

Certainly, these exterior pressures set constraints as to what kind of businesses can be created in the periphery. The division which exists between the core and the periphery is related mostly to the presence and use of resources which implies that the core and periphery will never meet. Different resources mean a different kind of entrepreneurship. Intermediate and low technology entrepreneurship can offer many benefits to a community characterized by providing individual economic value and sustainability for the community. Theorists and practitioners in the field are often blinded by the bright lights and noise of high technology, high growth ventures forgetting the more subtle, but not less important, social implications of entrepreneurship in the periphery (Steyaert & Katz 2004).

Positive Characteristics: The Social Impact of Entrepreneurship

Johnstone & Lionais (2004) state that there is a direct link between a community's socio-economic history and the form of entrepreneurship that it engenders. Benneworth (2003) touched on this recursive aspect of entrepreneurship when he said, “...entrepreneurial cultures emerge in particular places over long time periods and often reflect localized social mores and accumulated

economic success.” He goes on to describe life as a “daily creative formation” that can be enacted through entrepreneurship. The creative formation lies in the fact that chances are created for and by people to make a difference towards their own situation. Entrepreneurship in the periphery finds its *raison d’être* exactly in that statement – making a difference by the implied presence of change. Change can be anchored through entrepreneurial endeavors which are about reconnecting and repositioning certain groups of citizens (many times so-called underprivileged ones) in a society that becomes simultaneously transformed. It becomes obvious then that entrepreneurship is far less a private activity than an everyday tactic on the public scene (Benneworth 2003).

Steyaert and Katz (2004) ask an important question for entrepreneurship research of the periphery, “Entrepreneurial activities cannot be reserved for specific actors and actions. By opening up the range of stakeholders we ask who have we privileged in the study of entrepreneurship and what other parties could we consider? With widening space and discourses, entrepreneurship cannot be limited to a select group of actors because entrepreneurship can be seen taking place in the everydayness of our life in social interactions and in everyday practices (Steyaert and Katz 2004).

Trends in Entrepreneurship in the Periphery

Proving that entrepreneurship in the periphery is active and going through its own evolution, the following trends point to actions that have taken place in the last decade (Alistair Nolan 2003):

- **A Market Perspective:** In Europe, in particular, there has been a move away from the granting of financial resources toward various forms of financial engineering. Other soft forms of support such as access to business advice have become common. Commercial approaches to the provision of business development services have become more widely accepted. Local and regional policymakers often appear to overlook the role of markets. But it is now more commonly recognized that if properly harnessed, the creativity, resources, and know-how of markets can provide powerful support to policy. Adopting a commercial orientation will help avoid the displacement of private suppliers and the crowding out of private sector jobs. It will also help reduce unfair competition between program beneficiaries and non-beneficiaries.
- **Public Awareness:** Another area of change and perhaps innovation relates to programs to promote public awareness of entrepreneurship and enhance its social legitimacy. They have become more common and more sophisticated. A Scottish initiative called “Scottish Enterprise” undertaken in 1995 was, by far, the most comprehensive entrepreneurship development program in Europe. It targeted the population through a television program about entrepreneurs,

developed a traveling exhibit about entrepreneurship, and instituted entrepreneurship programs in primary and secondary schools.

- **The Power of the Internet:** In many countries the internet has led to a significant expansion in access to business information. National and sub-national governments across the OECD area have established internet sites containing extensive information for entrepreneurs. In the United States, the Minnesota State Rural Development Council and Minnesota Rural Partners created “BizPathways” which provides an electronic source of information on entrepreneurship development resources. Once entrepreneurs have registered with *BizPathways* they are automatically and continuously updated on the availability of relevant resources. Such a resource is likely to be particularly valuable in a rural context where the availability of business development services is generally less than in an urban setting. To date, research on the effects of internet based advisory services appears to be nonexistent. There is also little evidence on which to base an assessment of whether distance learning is appropriate to the needs of entrepreneurs. Knowledge of the impacts of such services could be particularly valuable to development agencies serving remote and sparsely populated areas.
- **Targeting Populations:** Innovation has been seen in specialized programs that target population groups, for example: women, ethnic minorities, youth and social enterprises. Entrepreneurial activity in a number of these target groups has grown significantly in recent years and is often closely linked to information and support received in local communities.

The trends discussed above show interventions on either the individual or institutional level or both. The theoretical literature on entrepreneurship theory promotes this angle of focus.

CONCLUSION

Depleted communities are areas to which people retain an attachment. They, therefore, continue to exist as a social entity because it is shaped by positive social forces as well as by negative economic forces. As long as the social forces are strong enough, it is worthwhile to intervene on behalf of economics. While the economic signals in peripheries signal to people that they should move, the ties to community, the emotional bonds and the social benefits of living there create a powerful resistance to leaving. A depleted community therefore can and often does maintain a strong and active network of social relations. The essence of what we recognize as periphery is the product of a wider, more profound relationship than simply spatial determinism. It is the social usage of space that gives meaning to the periphery (Anderson 2000). This can be understood in terms of the distinction made in the literature between *space* and *place*. Hudson (2001) defines *space* which is an economic (capitalistic) evaluation of location based on its

capacity for profit. His concept of *place* implies a social evaluation of location based on meaning. Places are not simply sites of production and consumption, but areas of meaningful social life where people live and learn; they are locations of cultural acquisition and socialization. They are made up of complex systems of social relations and material objects (Hudson 2001).

This paper began by examining the difference between the periphery and core focusing on the spatial dimensions of geographic, social and cognitive distance. Next, two theoretical angles the Mark I regime of Joseph Schumpeter and the Austrian School of Economics were presented as the theoretical basis for empirical research. In the Schumpeter model, the Mark I regime entrepreneur is seen as an economic actor who through “creative destruction” finds new ways of combining resources to create new dynamics and catalyze change. This implies movement and action, something economically stagnating regions are in sore need of. To develop entrepreneurial activity, the Mark I Regime theory hints at a valuable point of intervention: investment in the individual.

The second theoretical position of the Austrian School states that entrepreneurship does not describe a distinct group of individuals but rather an aspect of human action that is always present in society. (Kirzner, 1973). This human action is characterized by a subconscious alertness to economic opportunity which can only arise if the institutional environment is robust. For the development of entrepreneurship, the Austrians hint that our interventions should be at the institutional level.

In my view, both Schumpeter and the Austrians are correct. Interventions should be taken on behalf of the development of individuals and institutions because they are not separate entities but interact with one another erasing the boundaries of where one begins and the other ends. For practitioners, the implication is that successful interventions require attention to different levels of actors – individuals and institutions.

The paper concludes with a discussion on trends in entrepreneurship in the periphery in the last decade. Here we see, once again, the many different levels of society engaged in development. This proves that peripheral economic development through entrepreneurship has no pat answers and demands a multi-disciplinary approach.

Entrepreneurship's Limits

Entrepreneurship is not the secret formula for solving society's ills simply because it is such an interrelated phenomenon and seemingly affects economic and social development in the right conditions. Research has shown that if certain economic or societal conditions exist, entrepreneurship has a small chance of thriving and is thus limited in its development role. These conditions are: limited social & business networks, low levels of effective demand in the economy, low value of housing, access constraints to finance, lack of work experience and skills among residents, lack of role models, lack of personal motivation, sectoral clustering, high crime rates, problems of transition from reliance on benefits and inappropriate government regulation

(Benneworth 2004). These obstacles are not exclusive to deprived regions. However, it is highly likely that more of these variables are present and are more severe in the periphery.

Entrepreneurship's Possibilities

Entrepreneurship has the possibility of bringing dynamic into stagnation. It can make a difference where existing situations have stiffened. Entrepreneurship in the last quarter of the 20th century became a model for introducing different kinds of change that has had effects through many levels of society. Some examples include: innovative thinking, reorganizing the established, crafting the new across a broad range of settings and spaces and for a range of goals such as economic value creation, social change and transformation. It is the multi-discursive and widely-encompassing construction of entrepreneurship that encourages creative possibilities in the lessening of suffering due to poverty. Steyaert and Katz (2004) even go as far to say, "In a way, communities have within themselves the ability to foster entrepreneurship by defining it at the level of every person and every interaction."

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